

ALABAMA DEPARTMENT OF REVENUE

Instructions for Form 2210AL

Estimated Tax Penalties for Individuals

Form 2210AL is designed to calculate both estimate and underestimation tax penalties as prescribed in Section 40-2A-11 and 40-18-80 of the **Code of Alabama 1975**.

Who is subject to these penalties?

You are subject to an **Estimated Tax Penalty** (10% of the balance due from your individual income tax return) if you meet **all** of the following criteria:

1. You had income, other than wages or salaries, in excess of \$1875.00 for single taxpayers (including head of family or married filing separate) or \$3750.00 for taxpayers filing joint returns;
2. The amount of tax you owe (line 27 of Form 40 or line 26 of Form 40NR) without regard to any payments made with extension exceeds \$100.00;
3. You failed to file or make **any** quarterly installments during the tax year; **and**
4. You did not pay in through withholding either 100% of your previous year's tax liability or 90% of your current year's tax liability.

You are subject to an **Underestimation Penalty** (6% of the balance due from your individual income tax return) if you meet **all** of the following criteria:

1. You had income, other than wages or salaries, in excess of \$1875.00 for single taxpayers (including head of family or married filing separate) or \$3750.00 for taxpayers filing joint returns;
2. The amount of tax you owe (line 27 of Form 40 or line 26 of Form 40NR) without regard to any payments made with extension exceeds \$100.00; **and**
3. You did not pay in through withholding or estimated tax payments either 100% of your previous year's tax liability or 90% of your current year's tax liability.

Specific Instructions

Before calculating either of the penalties on Form 2210AL, you will need a copy of both your 2002 and 2003 Alabama income tax returns.

NOTE: Please round all amounts to the nearest whole dollar.

PART I: ESTIMATED TAX PENALTY

If you meet **all** of the criteria above for the Estimated Tax Penalty, you should complete Part I of Form 2210AL to determine the amount of penalty due. The line-by-line

instructions on Form 2210AL for Part I reference the line numbers that are needed from your current and previous years' Alabama returns. With these amounts, you will be able to compute the amount of estimated tax penalty due.

PART II: UNDERESTIMATION PENALTY

If you meet **all** of the criteria for the Underestimation Penalty, you should complete Part II of Form 2210AL to determine the amount of penalty due. There are two methods available for calculating this penalty – the **Short Method** from **Section B** or the **Quarterly Method** from **Section C**. If you choose to use the Quarterly Method, you must select from one of two options for calculating your quarterly income: (1) the *Annualized Income Installment Method* from **Schedule AI** or (2) one-quarter (25%) of your *Required Annual Payment* (Part II, Section A, Line 7). Selecting one of these options is necessary to calculate the required installments needed to compute your underpayment (Section C). The underpayment amount(s) will then be used to calculate the penalty.

SECTION A – Required Annual Payment

If you are subject to the underestimation penalty, **you must complete** Part II, Section A, in order to determine the amount of your *Required Annual Payment*. The *Required Annual Payment* will be needed to calculate the underestimation penalty regardless of the method chosen for calculating the underpayment.

Follow the line-by-line instructions in Section A to compute the amount of your *Required Annual Payment*. If the Alabama income tax withheld plus any estimated taxes paid for 2003 is equal to or greater than 90% of your current year liability or 100% of your previous year's tax liability, you are not subject to an underestimation penalty, and are not required to file this form.

Once you have calculated your *Required Annual Payment*, you must decide to use either Method I or Method II to calculate the amount of your underestimation penalty.

METHOD I

Section B – The Short Method

Most taxpayers will find this is the easiest method to use for computing the Underestimation Penalty. Complete this section if your income and deductions were evenly distributed for the year, or if your income for the first part of the year was significantly higher than your income for the end of the year. By following the line-by-line instructions in Section B, you will be able to compute your Underestimation Penalty.

METHOD II

Section C – The Quarterly Method

If you chose Method II, The Quarterly Method, the first decision you must make is how to compute the Required Installments (line 14, columns (a)-(d), Part II, Section C). You can either use the *Annualized Income Installment Method* from **Schedule AI** or use one-quarter (25%) of your *Required Annual Payment* to calculate the Required Installments. If you elect to use the *Annualized Income Installment Method* from **Schedule AI**, you must complete **Schedule AI** before you can complete Section C.

Line 14 – If you do not elect to use the Annualized Income Installment Method from Schedule AI to calculate your required installments on line 14, Section C, enter 25% (.25) of your *Required Annual Payment* from line 7, page 1, Part II, Section A, Form 2210AL, on line 14, columns (a)-(d). If you use the **Annualized Income Installment Method**, see the instructions that follow for **Schedule AI** before completing lines 15-27.

Line 15 – Enter the total of the estimated tax paid for 2003 (line 25 of Form 40, line 24 of Form 40NR) by quarters. For column (a) **only**, enter the amount from line 15(a) on line 19(a) also.

NOTE: If the amounts on line 15, columns (a)-(d) are larger than the amounts on line 14, columns (a)-(d), DO NOT FILE THIS FORM, you do not owe this penalty.

Line 16 – Do not enter an amount on line 16, column (a). For line 16, column (b), enter the amount from line 22, column (a). For line 16, column (c), enter the amount from line 22, column (b). For line 16, column (d), enter the amount from line 22, column (c).

Lines 23-26 (Figure the Penalty)

When you have completed Section C, any amounts on line 21, columns (a)-(d), must be entered into a computation under the heading **Figure the Penalty** that follows Section C.

The amounts on line 21, columns (a)-(d) are the amounts of underpaid Alabama income tax for 2002. The underestimation penalty will be calculated on these amounts by completing lines 23-26 under the heading **Figure the Penalty**.

Line 27 (Penalty)

Total the amounts from line 24, columns (a)-(c), and line 26, columns (a)-(d). This is the amount of your underestimation penalty. This amount should be included on the penalty line of Form 40 or Form 40NR (line 28 of Form 40 or line 27 of Form 40NR) as well as being added to the Amount You Owe line on both forms (line 27 of Form 40 or line 26 of Form 40NR).

Instructions for Schedule AI – Annualized Income Installment Method

Line 1 – Figure your total income for the period minus your adjustments to income for the period. Include your share of partnership or S corporation income or loss items for the period.

Line 4 – Figure your itemized deductions for the period. If you do not itemize your deductions, skip this line and go to line 7.

Line 10 – The federal tax liability deduction is located on line 13 of your 2003 Form 40, or line 15 of your 2003 Form 40NR.

Line 12 – If you are filing a Form 40, enter the total of lines 14 and 15 from your 2003 Form 40. If you are filing a Form 40NR, enter the total of lines 16 and 17 from your 2003 Form 40NR.

Line 15 – If you are filing a Form 40, enter the amount from line 19 of your 2003 Form 40. If you are filing Form 40NR, enter the amount from line 20b of your 2003 Form 40NR.

Line 19 – Do not enter an amount on line 19, column (a). For line 19, column (b), enter any amount from line 25, column (a). For line 19, column (c), enter the total of line 25, columns (a) and (b). For line 19, column (d), enter the total of line 25, columns (a), (b), and (c).

Line 21 – Enter 25% (.25) of your *Required Annual Payment* (line 7, page 1, Part II, Section A, Form 2210AL). This amount is needed in order to determine the amount of your underpayment (overpayment) by quarter.

*NOTE: After completing **Schedule AI**, see instructions for line 15, Section C.*
